

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PERRY COUNTY FISCAL COURT

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Perry County Fiscal Court for fiscal year ended June 30, 2009. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Perry County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$11,972,148 as of June 30, 2009. The fiscal court had unrestricted net assets of \$3,158,586 in its governmental activities as of June 30, 2009, with total net assets of \$11,972,148. The fiscal court had total debt principal as of June 30, 2009 of \$13,407,218 with \$493,770 due within the next year.

Report Comment:

2009-1 The Fiscal Court Should Ensure Accurate And Adequate Accounting Records Are Maintained

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Perry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Perry County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Perry County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2010 on our consideration of Perry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2009-1 The Fiscal Court Should Ensure Accurate And Adequate Accounting Records Are Maintained

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 10, 2010

PERRY COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Denny Ray Noble	County Judge/Executive
James F. Hurley	Magistrate
Bubby Combs	Magistrate
Earl Brashear	Magistrate

Other Elected Officials:

John Carl Shackelford	County Attorney
Johnny Blair	Jailer
Haven King	County Clerk
Roger Collins	Circuit Court Clerk
Les Burgett	Sheriff
John Frank Gross	Property Valuation Administrator
Jimmy Maggard	Coroner

Appointed Personnel:

Lee Hillman	County Treasurer
Joyce Napier	Finance Officer

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PERRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

PERRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,378,509
Total Current Assets	<u>3,378,509</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	2,730,802
Buildings	13,406,482
Vehicles and Equipment	1,729,044
Infrastructure Assets - Net of Depreciation	<u>4,134,529</u>
Total Noncurrent Assets	<u>22,000,857</u>
Total Assets	<u>25,379,366</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	330,000
Financing Obligations Payable	<u>288,770</u>
Total Current Liabilities	<u>618,770</u>
Noncurrent Liabilities:	
Bonds Payable	11,800,000
Financing Obligations Payable	<u>988,448</u>
Total Noncurrent Liabilities	<u>12,788,448</u>
Total Liabilities	<u>13,407,218</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	8,593,639
Restricted For:	
Debt Service	219,923
Unrestricted	<u>3,158,586</u>
Total Net Assets	<u>\$ 11,972,148</u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

PERRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,670,228	\$ 428,622	\$ 935,385	\$ 1,626,185
Protection to Persons and Property	2,451,071	12,399	201,139	
General Health and Sanitation	974,015	1,592		
Social Services	304,915		275,581	
Recreation and Culture	152,152	20,623		
Roads	436,886		3,113,097	
Debt Service	819,723			
Capital Projects	5,200			
Total Governmental Activities	8,814,190	463,236	4,525,202	1,626,185

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(680,036)
	(2,237,533)
	(972,423)
	(29,334)
	(131,529)
	2,676,211
	(819,723)
	(5,200)
	<u>(2,199,567)</u>

	688,065
	216,545
	244,077
	456,048
	132,090
	5,368,024
	<u>15,028</u>
	<u>7,119,877</u>
	<u>4,920,310</u>
	<u>7,051,838</u>
\$	<u><u>11,972,148</u></u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

PERRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	LGEA Fund	Coal Severance Special Projects Fund
ASSETS					
Cash and Cash Equivalents	\$ 625,784	\$ 1,145,211	\$ 18,640	\$ 437,529	\$ 866,370
Total Assets	<u>625,784</u>	<u>1,145,211</u>	<u>18,640</u>	<u>437,529</u>	<u>866,370</u>
FUND BALANCES					
Reserved for:					
Encumbrances	818	48,027		275	
Unreserved:					
General Fund	624,966				
Special Revenue Funds		1,097,184	18,640	437,254	866,370
Debt Service Fund					
Total Fund Balances	<u>\$ 625,784</u>	<u>\$ 1,145,211</u>	<u>\$ 18,640</u>	<u>\$ 437,529</u>	<u>\$ 866,370</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Public Properties Corporation Bond Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 205,739</u>	<u>\$ 79,236</u>	<u>\$ 3,378,509</u>
<u>205,739</u>	<u>79,236</u>	<u>3,378,509</u>
	224	49,344
		624,966
	64,828	2,484,276
<u>205,739</u>	<u>14,184</u>	<u>219,923</u>
<u>\$ 205,739</u>	<u>\$ 79,236</u>	<u>\$ 3,378,509</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Changes In Net Assets:

Total Fund Balances	\$ 3,378,509
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	30,519,568
Depreciation	(8,518,711)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,277,218)
Bonded Debt	(12,130,000)
Net Assets Of Governmental Activities	<u>\$ 11,972,148</u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

PERRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
REVENUES				
Taxes	\$ 1,577,018	\$	\$	\$
In Lieu Tax Payments	3,536	6,089		
Excess Fees	132,088			
Licenses and Permits	407,800			
Intergovernmental	484,039	1,469,026	85,811	2,516,492
Charges for Services	20,065			20,623
Miscellaneous	1,397,949	844,944	48,348	807,123
Interest	1,588	2,748	468	6,720
Total Revenues	<u>4,024,083</u>	<u>2,322,807</u>	<u>134,627</u>	<u>3,350,958</u>
EXPENDITURES				
General Government	1,386,115			156,189
Protection to Persons and Property	12,404		1,824,875	283,503
General Health and Sanitation	25,932			273,864
Social Services	34,441			196,380
Recreation and Culture				146,913
Roads		1,149,789		912,530
Debt Service		1,184,349		
Capital Projects				5,200
Administration	1,162,358	135,338	115,483	469,405
Total Expenditures	<u>2,621,250</u>	<u>2,469,476</u>	<u>1,940,358</u>	<u>2,443,984</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,402,833</u>	<u>(146,669)</u>	<u>(1,805,731)</u>	<u>906,974</u>
Other Financing Sources (Uses)				
Bond Issuance				
Payment to Escrow Agent				
Bond Issuance Fees				
Transfers From Other Funds	521,637	1,518,467	1,872,853	1,720,213
Transfers To Other Funds	(1,542,406)	(276,373)	(120,769)	(2,895,156)
Total Other Financing Sources (Uses)	<u>(1,020,769)</u>	<u>1,242,094</u>	<u>1,752,084</u>	<u>(1,174,943)</u>
Net Change in Fund Balances	382,064	1,095,425	(53,647)	(267,969)
Fund Balances - Beginning (Restated)	243,720	49,786	72,287	705,498
Fund Balances - Ending	<u>\$ 625,784</u>	<u>\$ 1,145,211</u>	<u>\$ 18,640</u>	<u>\$ 437,529</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Coal Severance Special Projects Fund	Public Properties Corporation Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 318,753	\$ 1,895,771
			9,625
			132,088
			407,800
1,293,981	90,000	584,283	6,523,632
			40,688
1,326,819		284,685	4,709,868
1,706	1,105	694	15,029
<u>2,622,506</u>	<u>91,105</u>	<u>1,188,415</u>	<u>13,734,501</u>
			1,542,304
		423,754	2,544,536
696,154			995,950
74,094			304,915
			146,913
			2,062,319
	517,529	643,019	2,344,897
			5,200
51,403	930	65,161	2,000,078
<u>821,651</u>	<u>518,459</u>	<u>1,131,934</u>	<u>11,947,112</u>
<u>1,800,855</u>	<u>(427,354)</u>	<u>56,481</u>	<u>1,787,389</u>
	1,910,000		1,910,000
	(1,790,000)		(1,790,000)
	(46,630)		(46,630)
482,317	470,251	10,000	6,595,738
(1,605,498)		(155,536)	(6,595,738)
<u>(1,123,181)</u>	<u>543,621</u>	<u>(145,536)</u>	<u>73,370</u>
677,674	116,267	(89,055)	1,860,759
188,696	89,472	168,291	1,517,750
<u>\$ 866,370</u>	<u>\$ 205,739</u>	<u>\$ 79,236</u>	<u>\$ 3,378,509</u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

PERRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 1,860,759
<p>Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital Outlay	3,981,131
Depreciation Expense	(2,302,113)
Disposal of Asset	(24,641)
<p>The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.</p>	
Bond Issuance	(1,910,000)
Payment to Escrow Agent	1,790,000
<p>Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.</p>	
Financing Obligations Principal Amount	170,174
Bond Payments	<u>1,355,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 4,920,310</u></u>

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TO THE FINANCIAL STATEMENTS**

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PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Perry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units..

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Perry County Justice Center Corporation

The Perry County Fiscal Court appoints a voting majority of the Justice Center Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Justice Center Corporation. Financial information for the Justice Center is blended with Perry County's financial statements. All activities of the Justice Center Corporation are accounted for as a non-major fund of the primary government.

Perry County Public Properties Corporation

The Perry County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended with Perry County's financial statements. Activities of the Public Properties Corporation are accounted for as a major fund and a non-major fund of the primary government.

C. Perry County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Perry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Perry County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The primary government reports governmental activities using the economic resources measurement focus and modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid with the exception of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the county. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30th, following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and donated assets are not reflected in the financial statements.

The County reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the general fund.

Coal Severance Special Projects Fund – The purpose of this fund is to assist community development and infrastructure throughout Perry County. The source of revenue is coal severance tax revenue. The Department for Local Government requires the fiscal court to report and budget these receipts and expenditures.

Public Properties Corporation Bond Fund – The purpose of this fund is to pay long-term debt service obligations incurred. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Area Development Fund, Perry County Emergency Fund, Forestry Fund, E-911 Fund, KREDA Fund, Public Properties Fund, CDBG Fund, and the Justice Center Corporation Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Coal Severance Special Projects Fund, Area Development Fund, Perry County Emergency Fund, Forestry Fund, E-911 Fund, and the KREDA Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The CDBG Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Bond Fund, Public Properties Corporation Fund and the Justice Center Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	5-15
Office Furniture and Equipment	\$ 500	3-5
Vehicles	\$ 5,000	5-7
Infrastructure	\$ 20,000	2-5

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation ("FDIC") as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirement of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,730,802	\$	\$	\$ 2,730,802
Total Capital Assets Not Being Depreciated	2,730,802			2,730,802
Capital Assets, Being Depreciated:				
Buildings	15,705,728			15,705,728
Vehicles and Equipment	2,861,202	431,020	(99,204)	3,193,018
Infrastructure	5,339,909	3,550,111		8,890,020
Total Capital Assets Being Depreciated	23,906,839	3,981,131	(99,204)	27,788,766
Less Accumulated Depreciation For:				
Buildings	(2,120,034)	(179,212)		(2,299,246)
Vehicles and Equipment	(1,303,665)	(234,872)	74,563	(1,463,974)
Infrastructure	(2,867,462)	(1,888,029)		(4,755,491)
Total Accumulated Depreciation	(6,291,161)	(2,302,113)	74,563	(8,518,711)
Total Capital Assets, Being Depreciated, Net	17,615,678	1,679,018	(24,641)	19,270,055
Governmental Activities Capital Assets, Net	\$ 20,346,480	\$ 1,679,018	\$ (24,641)	\$ 22,000,857

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 138,376
Protection to Persons and Property	147,836
General Health and Sanitation	2,830
Recreation and Culture	5,239
Roads, Including Depreciation of General Infrastructure Assets	<u>2,007,832</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,302,113</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-Term Debt

A. Perry County Detention Center Bond

In December 2001, the Perry County Fiscal Court issued \$6,115,000 in General Obligation Public Project Bonds to provide long-term financing the Perry County Detention Center. The proceeds were used to pay off three bond anticipation notes, which were used for the construction of the Perry County Detention Center. These bonds were scheduled to mature in June 2027 and have a variable interest rate of 2.0 to 5.0%. Semiannual interest payments are required in June and December and the principal amount is due each December.

On November 5, 2007, the Perry County Fiscal Court issued \$4,975,000 aggregate principal amount of General Obligation Refunding Bonds, Series 2007 for the purpose of advance refunding the Detention Center Bonds. The bond proceeds are set in an escrow account and will defease this bond on December 1, 2010.

B. General Obligation Road Improvement Bond

In October 2005, the Perry County Fiscal Court issued \$1,030,000 in General Obligation Public Project Bonds to provide financing for the improvement of county roads. The bonds were originally scheduled to mature in April 2016 and have a variable interest rate of 3.0% to 3.6%. Semiannual interest payments are required in April and October and the principal amount is due each October.

In October 2006 the Perry County Fiscal Court received coal severance funds and in December 2006 deposited \$962,784.68 of the funds into Central Bank & Trust Road Improvement Bond Account. Per the bond agreement, the bonds cannot be paid off before February 1, 2010. Huntington National Bank is now holding \$1,790,000 of funds in escrow and making the required interest and principal payments from the escrowed funds until the optional redemption date. No further requirements are required from the fiscal court.

C. KADD Lease – Land Purchased and Demolition

On July 1, 2000, the Perry County Kentucky Justice Center Corporation entered into a capital lease agreement with the Kentucky Area Development District, on behalf of the Administrative Office of Courts, for phase one of the Justice Center Project. These funds were for the purchase of property and the demolition of an existing building for the Justice Center Project.

On May 13, 2009, the Perry County Fiscal Court entered into a capital lease agreement for the amount of \$1,910,000. The purpose of this lease was to refinance the old lease. Per the bond agreement, the bonds cannot be paid off before April 1, 2010. Huntington National Bank is holding the funds in escrow and making the required interest and principal payments from the escrowed funds until the optional redemption date. No further requirements are required from the fiscal court.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

D. Perry County Justice Center Bond (Phase 2)

In April 2002, the Perry County Justice Center Corporation issued bonds in order to construct the Perry County Justice Center. On the same day, the Perry County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a use and sublease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Justice Building. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the use and sublease agreement, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The Administrative Office of the Courts with the execution of the use and sublease agreement has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until June 1, 2023, but the use and sublease agreement does not legally obligate the Administrative Office of Courts to do so. As of June 30, 2009, the principle balance outstanding was \$4,855,000. Debt service requirements for fiscal years ending June 30, 2010, and thereafter are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2010	\$ 219,013	\$ 260,000
2011	207,945	270,000
2012	196,118	280,000
2013	183,575	290,000
2014	170,184	305,000
2015-2019	622,328	1,740,000
2020-2023	168,960	1,710,000
Totals	<u>\$ 1,768,123</u>	<u>\$ 4,855,000</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. General Obligation Road Improvement Bond Series 2007

In August 2007, the Perry County Fiscal Court issued \$1,040,000 in General Obligation Road Improvement Notes to provide financing for the improvement of county roads. The bonds are scheduled to mature in August 2010 and have an interest rate of 4.0%. During fiscal year ended June 30, 2009, the fiscal court paid the principal balance outstanding of \$1,040,000. No further requirements are due.

F. KADD 2006 2300 Road Improvement Bond

In October 2006, the Perry County Fiscal Court issued \$495,000 in General Obligation Road Improvement Notes to provide financing for the improvement of county roads. The bonds are scheduled to mature in November 2016 and have a variable interest rate of 4.0% to 4.5%. Semiannual interest payments are required in May and November and the principal amount is due each November. As of June 30, 2009, the principal balance outstanding was \$415,000. Debt service requirements for fiscal years ending June 30, 2010, and thereafter is as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2010	\$ 17,450	\$ 45,000
2011	15,515	45,000
2012	13,425	50,000
2013	11,225	50,000
2014	8,888	55,000
2015-2017	11,700	170,000
Totals	<u>\$ 78,203</u>	<u>\$ 415,000</u>

G. KADD Lease - Cintas

On May 14, 1998, the county entered into a lease agreement with the Kentucky Area Development District Financing Trust for the purpose of refinancing a bank note. Terms of the lease agreement stipulate a 20-year repayment schedule with semiannual interest payments and annual principal payments. As of June 30, 2009, the principal balance outstanding was \$1,115,000. Debt service requirements for fiscal years ending June 30, 2010, and thereafter are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2010	\$ 63,538	\$ 100,000
2011	58,038	105,000
2012	52,263	110,000
2013	46,213	115,000
2014	39,888	120,000
2015-2018	85,663	565,000
Totals	<u>\$ 345,603</u>	<u>\$ 1,115,000</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

H. General Obligation Refunding Bonds, Series 2007

In November 2007, the Perry County Fiscal Court issued \$4,975,000 in General Obligation Bonds to refund the Perry County Detention Center Bond from December 2001. The bonds are scheduled to mature in December 2026 and have an interest rate of 3.85%. Semiannual interest payments are required in June and December with principal amount due each December. As of June 30, 2009, the principal balance outstanding was \$4,950,000. Debt service requirements for fiscal years ending June 30, 2010, and thereafter is as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2010	\$ 190,094	\$ 25,000
2011	189,131	25,000
2012	184,319	225,000
2013	175,368	240,000
2014	166,128	240,000
2015-2019	679,910	1,370,000
2020-2024	388,369	1,665,000
2025-2027	67,953	1,160,000
Totals	<u>\$ 2,041,271</u>	<u>\$ 4,950,000</u>

I. KADD 2009 Land Purchased and Demolition Refinancing Note

On May 13, 2009, Perry County Kentucky Justice Center Corporation entered into a capital lease agreement with the Kentucky Area Development District, on behalf of the Administrative Office of Courts, for the purpose of refinancing a prior debt issue. Terms of the lease agreement stipulate a 12-year repayment schedule with semiannual interest payments and annual principal payments.

The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Justice Building. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of this KADD lease. Under the terms of an additional use and sublease agreement, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the KADD lease.

The use allowance payment has commenced prior to the occupancy of the Justice Building by the Administrative Office of the Courts. The Administrative Office of the Courts with the execution of the use and sublease agreement has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 2018, but the use and sublease agreement does not legally obligate the Administrative Office of the Courts to do so.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

I. KADD 2009 Land Purchased and Demolition Refinancing Note (Continued)

As of June 30, 2009, the principal balance outstanding was \$1,910,000. Debt service requirements for fiscal years ending June 30, 2010, and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 63,722	\$ 125,000
2011	59,225	130,000
2012	57,043	130,000
2013	54,335	135,000
2014	51,253	135,000
2015-2019	193,622	745,000
2020-2022	49,134	510,000
Totals	<u>\$ 528,334</u>	<u>\$ 1,910,000</u>

J. KACO Leasing Trust - Vehicles

Perry County financed a purchase through the Kentucky Association of Counties Leasing Trust for vehicles. As of June 30, 2009, the principal balance outstanding was paid in full.

K. KACO Leasing Trust - Trucks

On July 27, 2007, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$152,141 for the purchase of trucks. The agreement requires variable monthly payments for 41 months to be paid in full January 20, 2011 with an interest rate of 4.21%. The principal balance of the agreement is \$82,142 as of June 30, 2009. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 2,539	\$ 40,000
2011	1,151	42,143
Totals	<u>\$ 3,690</u>	<u>\$ 82,143</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

L. KACO Leasing Trust - Excavator

On November 5, 2007, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$76,682 for the purchase of an excavator. The agreement requires variable monthly payments for 60 months to be paid in full November 20, 2012 with an interest rate of 4.21%. The principal balance of the agreement is \$56,571 as of June 30, 2009. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 2,104	\$ 15,388
2011	1,617	16,306
2012	939	17,335
2013	172	7,542
Totals	<u>\$ 4,832</u>	<u>\$ 56,571</u>

M. KACO Leasing Trust - Excavator

On March 11, 2008, the Perry County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$33,723 for the purchase of vehicles. The agreement requires variable monthly payments for 48 months to be paid in full March 20, 2012 with an interest rate of 3.959%. The principal balance of the agreement is \$23,504 as of June 30, 2009. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2010	\$ 769	\$ 8,382
2011	594	8,569
2012	1,614	6,553
Totals	<u>\$ 2,977</u>	<u>\$ 23,504</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

N. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 6,470,000	\$ 1,910,000	\$1,105,000	\$ 7,275,000	\$ 70,000
Revenue Bonds	5,105,000		250,000	4,855,000	260,000
Financing Obligations	3,237,392		1,960,174	1,277,218	288,770
Governmental Activities					
Long-term Liabilities	<u>\$ 14,812,392</u>	<u>\$ 1,910,000</u>	<u>\$ 3,315,174</u>	<u>\$13,407,218</u>	<u>\$ 618,770</u>

Note 5. Interest on Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$481,089 in interest on financing obligations and \$75,868 in interest on bonds and notes.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Employee Retirement System (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Perry County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2009, Perry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 9. Prior Period Adjustments

The beginning net asset balance as of June 30, 2009 for governmental activities of Perry County Fiscal Court has been restated. We have made adjustments to correct prior year debt items that were recorded improperly. Also, we have removed the cash balance of a bond account that was escrowed in the prior year. The following is a reconciliation of net assets as of June 30, 2008 as previously reported to the restated net assets balance for the same period.

	<u>Governmental Activities</u>
Beginning Net Assets	\$ 7,696,884
Adjustments:	
KACo #5 Vehicles Balance	59
KACo #6 Trucks Balance	(71,380)
KACo #7 Excavator Balance	(117,142)
KACo #8 Vehicles Balance	855,000
2005 Road Bond Balance	(17,168)
Capital Asset Adjustment	(428,245)
2005 Bond Debt Service Account Cash	(866,845)
2007 Escrow Account Cash	(66)
PY Cash Adjustment to Debt Service Accounts	<u>741</u>
Restated beginning balance	<u><u>\$ 7,051,838</u></u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,597,846	\$ 1,597,846	\$ 1,577,018	\$ (20,828)
In Lieu Tax Payments			3,536	3,536
Excess Fees	93,558	93,558	132,088	38,530
Licenses and Permits	402,000	402,000	407,800	5,800
Intergovernmental Revenue	818,500	818,500	484,039	(334,461)
Charges for Services	39,500	39,500	20,065	(19,435)
Miscellaneous	57,200	57,200	1,397,949	1,340,749
Interest	1,500	1,500	1,588	88
Total Revenues	<u>3,010,104</u>	<u>3,010,104</u>	<u>4,024,083</u>	<u>1,013,979</u>
EXPENDITURES				
General Government	1,606,367	1,690,301	1,386,115	304,186
Protection to Persons and Property	16,500	19,700	12,404	7,296
General Health and Sanitation	70,000	42,760	25,932	16,828
Social Services	64,600	52,101	34,441	17,660
Administration	1,351,326	1,378,931	1,162,358	216,573
Total Expenditures	<u>3,108,793</u>	<u>3,183,793</u>	<u>2,621,250</u>	<u>562,543</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(98,689)</u>	<u>(173,689)</u>	<u>1,402,833</u>	<u>1,576,522</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			521,637	521,637
Transfers To Other Funds	<u>(201,311)</u>	<u>(201,311)</u>	<u>(1,542,406)</u>	<u>(1,341,095)</u>
Total Other Financing Sources (Uses)	<u>(201,311)</u>	<u>(201,311)</u>	<u>(1,020,769)</u>	<u>(819,458)</u>
Net Changes in Fund Balance	(300,000)	(375,000)	382,064	757,064
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>243,720</u>	<u>(56,280)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (75,000)</u>	<u>\$ 625,784</u>	<u>\$ 700,784</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 5,000	\$ 5,000	\$ 6,089	\$ 1,089
Intergovernmental Revenue	1,356,331	1,356,331	1,469,026	112,695
Miscellaneous	51,000	51,000	844,944	793,944
Interest	3,000	3,000	2,748	(252)
Total Revenues	<u>1,415,331</u>	<u>1,415,331</u>	<u>2,322,807</u>	<u>907,476</u>
EXPENDITURES				
Roads	1,362,862	1,331,287	1,149,789	181,498
Debt Service	90,570	1,619,075	1,184,349	434,726
Administration	261,899	164,969	135,338	29,631
Total Expenditures	<u>1,715,331</u>	<u>3,115,331</u>	<u>2,469,476</u>	<u>645,855</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(300,000)</u>	<u>(1,700,000)</u>	<u>(146,669)</u>	<u>1,553,331</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			1,518,467	1,518,467
Transfers To Other Funds			(276,373)	(276,373)
Total Other Financing Sources (Uses)			<u>1,242,094</u>	<u>1,242,094</u>
Net Changes in Fund Balance	(300,000)	(1,700,000)	1,095,425	2,795,425
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>49,786</u>	<u>(250,214)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1,400,000)</u>	<u>\$ 1,145,211</u>	<u>\$ 2,545,211</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 131,513	\$ 131,513	\$ 85,811	\$ (45,702)
Miscellaneous	2,000	2,000	48,348	46,348
Interest	300	300	468	168
Total Revenues	<u>133,813</u>	<u>133,813</u>	<u>134,627</u>	<u>814</u>
EXPENDITURES				
Protection to Persons and Property	1,907,931	1,952,336	1,824,875	127,461
Debt Service	216,057	166,652		166,652
Administration	114,600	119,600	115,483	4,117
Total Expenditures	<u>2,238,588</u>	<u>2,238,588</u>	<u>1,940,358</u>	<u>298,230</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,104,775)</u>	<u>(2,104,775)</u>	<u>(1,805,731)</u>	<u>299,044</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,089,775	2,089,775	1,872,853	(216,922)
Transfers To Other Funds			(120,769)	(120,769)
Total Other Financing Sources (Uses)	<u>2,089,775</u>	<u>2,089,775</u>	<u>1,752,084</u>	<u>(337,691)</u>
Net Changes in Fund Balance	(15,000)	(15,000)	(53,647)	(38,647)
Fund Balance - Beginning	<u>15,000</u>	<u>15,000</u>	<u>72,287</u>	<u>57,287</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,640</u>	<u>\$ 18,640</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 50,000	\$ 50,000	\$	\$ (50,000)
Intergovernmental Revenue	3,334,500	3,334,500	2,516,492	(818,008)
Charges for Services	15,000	15,000	20,623	5,623
Miscellaneous	39,500	39,500	807,123	767,623
Interest	6,000	6,000	6,720	720
Total Revenues	3,445,000	3,445,000	3,350,958	(94,042)
EXPENDITURES				
General Government			156,189	(156,189)
Protection to Persons and Property	156,452	299,134	283,503	15,631
General Health and Sanitation	145,328	314,968	273,864	41,104
Social Services	132,000	204,321	196,380	7,941
Recreation and Culture	193,235	218,235	146,913	71,322
Roads	610,000	1,099,500	912,530	186,970
Debt Service	15,000	201,189		201,189
Capital Projects	6,000	6,000	5,200	800
Administration	1,098,520	538,189	469,405	68,784
Total Expenditures	2,356,535	2,881,536	2,443,984	437,552
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,088,465	563,464	906,974	343,510
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			1,720,213	1,720,213
Transfers To Other Funds	(1,888,465)	(1,888,465)	(2,895,156)	(1,006,691)
Total Other Financing Sources (Uses)	(1,888,465)	(1,888,465)	(1,174,943)	713,522
Net Changes in Fund Balances	(800,000)	(1,325,001)	(267,969)	1,057,032
Fund Balances - Beginning	800,000	800,000	705,498	(94,502)
Fund Balances - Ending	\$ 0	\$ (525,001)	\$ 437,529	\$ 962,530

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

Coal Severance Special Projects Fund				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 3,052,000	\$ 3,052,000	\$ 1,293,981	\$ (1,758,019)
Miscellaneous Revenues			1,326,819	1,326,819
Interest	1,500	1,500	1,706	206
Total Revenues	3,053,500	3,053,500	2,622,506	(430,994)
EXPENDITURES				
General Government	3,203,500	2,166,608		2,166,608
General Health and Sanitation		776,500	696,154	80,346
Social Services		74,392	74,094	298
Administration		111,000	51,403	59,597
Total Expenditures	3,203,500	3,128,500	821,651	2,306,849
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(150,000)	(75,000)	1,800,855	1,875,855
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			482,317	482,317
Transfers To Other Funds			(1,605,498)	(1,605,498)
Total Other Financing Sources (Uses)			(1,123,181)	(1,123,181)
Net Changes in Fund Balances	(150,000)	(75,000)	677,674	752,674
Fund Balances - Beginning	150,000	150,000	188,696	38,696
Fund Balances - Ending	\$ 0	\$ 75,000	\$ 866,370	\$ 791,370

PERRY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

PERRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

PERRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Area Development Fund	Perry County Emergency Fund	Forestry Fund	E-911 Fund	KREDA Fund
ASSETS					
Cash and Cash Equivalents	\$ 2,523	\$ 16,567	\$ 5,781	\$ 40,179	\$
Total Assets	<u>2,523</u>	<u>16,567</u>	<u>5,781</u>	<u>40,179</u>	<u>0</u>
FUND BALANCES					
Reserved:					
Encumbrances				224	
Unreserved:					
Debt Service					
Special Revenue Funds	<u>2,523</u>	<u>16,567</u>	<u>5,781</u>	<u>39,955</u>	
Total Fund Balances	<u>\$ 2,523</u>	<u>\$ 16,567</u>	<u>\$ 5,781</u>	<u>\$ 40,179</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2009
(Continued)

Public Properties Fund	CDBG Fund	Justice Center Corporation Fund	Total Non-Major Governmental Funds
\$ 14,184	\$ 2	\$	\$ 79,236
14,184	2	0	79,236
			224
14,184	2		14,184
			64,828
\$ 14,184	\$ 2	\$ 0	\$ 79,236

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

PERRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Area Development Fund	Perry County Emergency Fund	Forestry Fund	E-911 Fund
REVENUES				
Taxes	\$	\$	\$ 71	\$ 318,682
Intergovernmental		1,345		101,728
Miscellaneous		9,104		
Interest	12		23	329
Total Revenues	<u>12</u>	<u>10,449</u>	<u>94</u>	<u>420,739</u>
EXPENDITURES				
Protection to Persons and Property				423,754
Debt Service				
Administration				63,138
Total Expenditures				<u>486,892</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>12</u>	<u>10,449</u>	<u>94</u>	<u>(66,153)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	(26,729)			
Total Other Financing Sources (Uses)	<u>(26,729)</u>			
Net Change in Fund Balances	(26,717)	10,449	94	(66,153)
Fund Balances - Beginning	29,240	6,118	5,687	106,332
Fund Balances - Ending	<u>\$ 2,523</u>	<u>\$ 16,567</u>	<u>\$ 5,781</u>	<u>\$ 40,179</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

KREDA Fund	Public Properties Fund	CDBG Fund	Justice Center Corporation Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$
			481,210	318,753
275,581				584,283
246	57		27	284,685
<u>275,827</u>	<u>57</u>		<u>481,237</u>	<u>1,188,415</u>
				423,754
163,801			479,218	643,019
			2,023	65,161
<u>163,801</u>			<u>481,241</u>	<u>1,131,934</u>
112,026	57		(4)	56,481
10,000				10,000
<u>(128,807)</u>				<u>(155,536)</u>
<u>(118,807)</u>				<u>(145,536)</u>
(6,781)	57		(4)	(89,055)
6,781	14,127	2	4	168,291
<u>\$ 0</u>	<u>\$ 14,184</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 79,236</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Members of the Perry County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 10, 2010. Perry County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Perry County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Perry County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Perry County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation as item 2009-1 to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Perry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Perry County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 10, 2010

COMMENT AND RECOMMENDATION

PERRY COUNTY
COMMENT AND RECOMMENDATION

June 30, 2009

INTERNAL CONTROL - MATERIAL WEAKNESSES

2009-1 The Fiscal Court Should Ensure Accurate And Adequate Accounting Records Are Maintained

On October 12, 2009, auditors began the fiscal court's audit for the fiscal year ended June 30, 2009. After work had started it was determined that the fourth quarter financial statement did not agree to bank records, the receipt and disbursement ledgers were not accurate nor complete and adequate documentation was not maintained on all of the county's debt. At this time the fiscal court was given additional time to correct all of the errors on the fourth quarter financial statement, to prepare complete receipts and disbursements ledgers, to obtain information on all debt, and to prepare financial statements for the debt service accounts. On January 4, 2010, the fiscal court appointed a new treasurer. The new treasurer prepared new ledgers and a new financial statement and obtained debt service financial statements and records.

After allowing the fiscal court the additional time to correct the issues, the audit resumed on March 23, 2010. However, the fiscal court still did not have all of the records or information on the county's debt and the transfers in and transfers out on the fourth quarter report did not agree. Auditor's determined that the fiscal court refinanced a lease that had not been disclosed and still did not have all of the bank account information on this debt. In addition, it was determined that numerous mistakes had occurred with payroll.

The fiscal court's review process of financial records should have detected that the former treasurer's records were incorrect. The fiscal court was presented with monthly treasurer reports and each was accepted. However, none of the errors were detected. The finance officer could have compared her appropriation ledger totals to the treasurer's report and another employee could have reviewed the bank reconciliations. In order for the controls that are in place to work, the fiscal court must strictly adhere to the processes required by the Department for Local Government and also the processes that management has in place.

We recommend that the fiscal court strengthen the process of reviewing the treasurer's financial records to ensure that they are accurate and complete. Furthermore, we recommend that the fiscal court obtain and file all records of current debt and any future debt that is incurred.

County Judge/Executive's Response: Once I was made aware of the records being incorrect, immediate action was taken. A new Treasurer was appointed and the bookkeeping errors were corrected. We are in the process of implementing procedures that will detect any discrepancies in our financial reporting.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

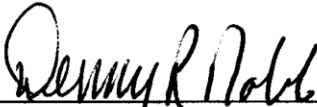
PERRY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
PERRY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

The Perry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Denny Ray Noble
County Judge/Executive

